Thoroughly discuss and explain the following quote, explaining carefully what the authors meant by contingent valuation, WTP, WTAC, Hicksian equivalent or compensating surplus or variation. (2 pages)

“In contingent valuation surveys, for example, people may be asked to state their preferences for the environment. This request might consist of asking people for their maximum willingness to pay (WTP) for an increase in environmental quality or their minimum willingness to accept compensation (WTAC) to forgo such an increase. Respondents might instead be asked about their maximum WTP to avoid a decrease in environmental quality, or their minimum WTAC to accept this reduction. Because the level of environmental quality is usually chosen by a third party (such as the government requiring a certain level of air quality measures to be achieved) and not by the individual being questioned, these measures correspond to either Hicksian equivalent or compensating surplus (rather than equivalent or compensating variation, where quality/quantity is chosen by the individual.”

The theory of economics suggests that the two basic concepts of valuing benefits and losses: willingness to pay for a benefit (prevent a loss) and willingness to accept compensation to forego a benefit (a loss) should not differ much when valuing the same benefit (or loss). However, empirical studies suggest there are marked differences between the two measures. Discuss why these measures might yield differing empirical results. (1½ pages)

An automobile maker is interested in the marginal willingness to pay by car consumers for fuel economy in the cars the manufacturer produces. The automobile maker has asked you to conduct a hedonic analysis of automobile characteristics. Describe how you would carry out the analysis, being sure to discuss (a) which characteristics of cars you would measure, (b) how you would measure the hedonic price function, and (c) how you would translate this knowledge into a marginal willingness to pay function. (2 pages)